

Message Text

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DEPARTMENT PASS TREASURY SYVRUD

E.O. 11652:N/A

TAGS: ECON, UK, E/FIN

SUBJECT: PRICE CODE AMENDMENTS IN WAKE OF WHITE PAPER

REF: LONDON 10678

1. IN A SERIES OF PROPOSED AMENDMENTS TO THE PRICE CODE HMG GAVE SUBSTANCE TO ITS INTENTION OF PREVENTING EMPLOYERS FROM PASSING THROUGH TO CONSUMERS BY MEANS OF HIGHER PRICES, COSTS ARISING FROM WAGE SETTLEMENTS EXCEEDING THE 6 POUND LIMIT SET IN THE GOVERNMENT WHITE PAPER. AT PRESENT, THE PRICE CODE ALLOWS THE PASS THROUGH OF 100 PERCENT OF NON-WAGE COST INCREASES AND 80 PERCENT OF INCREASED WAGE COSTS. THE PROPOSED AMENDMENTS WILL REQUIRE ALL EMPLOYERS WITH MORE THAN 100 EMPLOYEES, INCLUDING THE NATIONALIZED INDUSTRIES, SEEKING TO PASS THROUGH INCREASED WAGE COSTS TO SUBMIT DETAILED DATA ON THEIR UNDERLYING WAGE SETTLEMENTS TO THE PRICE COMMISSION. THIS INFORMATION WILL BE GIVEN TO THE DEPARTMENT OF EMPLOYMENT WHERE A DETERMINATION WILL BE MADE AS TO LIMITED OFFICIAL USE

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WHETHER THE SETTLEMENT FALLS WITHIN THE 6 POUND LIMIT.

IN THE CASE OF SMALLER EMPLOYERS, ONLY A STATEMENT THAT THE WAGE SETTLEMENT FALLS WITHIN THE LIMIT IS REQUIRED. IF THESE REQUIREMENTS ARE SATISFIED, FIRMS WILL BE ABLE TO PASS THROUGH 80 PERCENT OF INCREASED WAGE COSTS AS THEY NOW DO.

2. SHOULD IT BE DETERMINED THAT A FIRM IS IN VIOLATION OF THE GUIDELINES, THE PRICE COMMISSION WILL DISALLOW THE FULL AMOUNT OF THE REQUESTED PRICE INCREASE. IN THE CASE OF CAPITAL INTENSIVE INDUSTRIES WHERE LABOR COSTS ARE LESS THAN 15 PERCENT OF TOTAL COSTS, FIRMS EXCEEDING THE LIMIT WILL BE FURTHER PENALIZED IN THAT THE FULL AMOUNT OF THE SETTLEMENT WILL BE MULTIPLIED BY A FACTOR REPRESENTING THE RATIO OF 15 PERCENT TO THE PERCENTAGE OF LABOR COSTS. FOR EXAMPLE, PRICE COMMISSION OFFICIALS TELL US THAT IF A FIRM WHOSE LABOR COSTS REPRESENTED 7-1/2 PERCENT OF TOTAL COSTS AGREED TO A WAGE INCREASE OF 7 POUNDS, THE PRICE COMMISSION WOULD DISALLOW PRICE INCREASES BASED ON 14 POUNDS WHICH IS EQUAL TO THE ENTIRE 7 POUNDS MULTIPLIED BY A FACTOR OF 2 (15 PERCENT DIVIDED BY 7-1/2 PERCENT). THIS WOULD MEAN THAT NOT ONLY WOULD THE PASS THROUGH OF THE ENTIRE WAGE INCREASE BE DENIED BUT ALSO THE EQUIVALENT OF AN EXTRA 7 POUNDS OF OTHER COSTS THE FIRM WISHED TO RECOVER THROUGH HIGHER PRICES.

3. COMMENT: THIS LAST PROVISION SEEMS DESIGNED TO INSURE THAT CAPITAL INTENSIVE FIRMS WILL NOT AGREE TO WAGE SETTLEMENTS ABOVE THE 6 POUND LIMIT. SINCE SUCH FIRMS ARE FEW IN NUMBER, THE IMPACT OF THIS PROVISION WILL BE MAINLY COSMETIC. HOWEVER, THE CONFEDERATION OF BRITISH INDUSTRY CAN BE EXPECTED TO PROTEST LOUDLY ON THE GROUND THAT ONE GROUP OF FIRMS IS BEING UNFAIRLY DISCRIMINATED AGAINST.

4. WHILE THE PROPOSED AMENDMENTS TO THE PRICE CODE BEAR NO DIRECT RELATIONSHIP TO THE SIZE OF WAGE SETTLEMENTS, THEY WILL STIFFEN THE RESISTANCE OF EMPLOYERS TO SETTLEMENTS ABOVE THE WHITE PAPER GUIDELINE. THIS COULD INCREASE THE LIKELIHOOD OF STRIKE ACTION BY UNIONS UNWILLING TO BE BOUND BY THE GUIDELINE. HOWEVER, THE REACTION LIMITED OFFICIAL USE

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OF THE UNIONS REMAINS TO BE SEEN.

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